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SUBJECT: The Japan Economic Scope--September 6, 2007

¶11. (U) This cable contains the Japan Economic Scope from August 6, 2007.

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FARMING AND AGRICULTURE  
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13. (U) Fukuoka Farmers Protest Free Trade

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In an effort to raise awareness of the adverse impact free trade would have on Japanese farmers, the Fukuoka Prefecture JA Youth Council staged a demonstration in central Fukuoka on August 23. More than 200 "young farmers" and 22 tractors made their way three kilometers through Fukuoka protesting the proposed EPA with Australia. The group's representative, Nobutaka Kuratomi, asserted that once tariff rates on foreign agricultural products were reduced or eliminated, Japanese agriculture would disappear and that it is important for consumers to recognize how dire the situation is.

Unaccustomed to seeing such a sight, onlookers watched as the red and blue tractors (possibly representing the Australian flag according to post's JA contact) drove down city streets carrying banners stating "Beautiful Japan, let's protect our food supply" and "40 percent self-sufficiency rate, do you want to depend on imported food?"

The Consulate's JA contact said that while this protest was mainly targeted at Australia, the group is also concerned about the competitiveness and safety of Chinese agricultural products. He stressed that this demonstration was not about American agricultural products. (Fukuoka: Mariko Mizumachi/Jim Crow)

14. (SBU) A New Agriculture Minister -- Financial Scandals  
Continue

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The epicenter of the political storm in Japan after recent Upper House elections appears to be at the Agriculture Ministry.

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Takehiko Endo resigned on September 3 after less than a week as PM Abe's Agriculture Minister, replaced by Masatoshi Wakabayashi. A murky financial scandal undid Endo, whose reluctance to become minister seems to have been justified by events.

For his part, Wakabayashi is a known quantity -- this will be his third stint as either interim Agriculture Minister or Minister since the end of May, when he replaced Toshikatsu Matsuoka, who hanged himself over his own set of financial scandals.

Wakabayashi is very familiar with agricultural issues and enjoys credibility with the ruling coalition's Ag caucus in the Diet. A GOJ source told us that PM Abe is keen to keep the Agriculture Ministry in the hands of somebody who knows the issues, particularly at what is an important juncture in the Doha talks.

The source predicted that the new Agriculture Minister will play a "very active role" if the Doha talks pick up steam. He added, however, that Wakabayashi's finances will be scrutinized. The press seems to have a "double standard" and is looking for scandals, he said.

He noted he had just heard reports in the media that Wakabayashi had made mistakes in filing some financial documents. Wakabayashi's biography is attached. (ECON: Nicholas Hill)

15. (U) Recent Agriculture Ministers

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Yoshinobu SHIMAMURA 07/19/2004  
\*Juinichiro KOIZUMI 08/08/2005 \*Concurrently Prime Minister  
Mineichi IWANAGA 08/11/2005  
Shoichi NAKAGAWA 10/31/2005  
Toshikatsu MATSUOKA 09/26/2006  
\*Masatoshi WAKABAYASHI 05/28/2007 \*Acting MAFF Minister following Matsuoka suicide  
Norihiro AKAGI 06/01/2007  
\*Masatoshi WAKABAYASHI 08/01/2007 \*Concurrently Environment Minister  
Takehiko ENDO 08/27/2007  
Masatoshi WAKABAYASHI 09/03/2007 - Present

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CLIMATE CONCERNS  
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16. (U) Clean Coal Conference Calls for Incentives, Investment to Combat Carbon Emissions  
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The Japan Coal Energy Center (JCOAL) and the Japanese Committee for Pacific Coal Flow (JAPAC) co-hosted "Clean Coal Day in Japan" on September 5-6. This year was the forum's seventeenth anniversary and the event included attendees from ten countries. The group focused on United Nations' International Panel on Climate Change (IPCC) findings of "a global mean loss of one to five percent of GDP by a warming of four degrees Celsius."

Energy security was also a prominent discussion topic, with many developing country representatives expressing concern about being able to maintain a sufficient supply of energy.

The Japan Bank for International Cooperation (JBIC), an arm of Japan's official development assistance and promoter of sustainable development, presented the financial perspective on energy security and investment. Viable projects are steadily underway in anticipation of the upcoming G-8 conference in Hokkaido next year. (ECON: Antonio Gonzalez/David DiGiovanna)

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TRANSPORTATION  
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17. (SBU) Honda Officials Worry about 100% NII Screening, Okay with Megaports  
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Honda executives told us that 100 percent x-ray scanning (Non-Intrusive Imaging) would cause significant economic damage to the company's bottom line. Honda ships 10,000 containers a year and they noted even a relatively short delay of minutes would slow

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down their supply chain and boost costs.

At an informal meeting September 5, Honda officials expressed their concerns to us but also indicated that they were cautiously optimistic about the potential for 100 percent radiological screening.

As long as it does not slow down the movement of goods, radiological screening sounds like a good idea, one executive said. Illustrating the need for more outreach on the issue, one official asked about what sort of damage radiological screening could have on the company's shipments, making a parallel to x-ray damage to camera film.

The executives pitched the value of risk-based analysis as a more resource-effective security plan, pointing to successes in programs such as the Container Security Initiative and Customs-Trade Partnership Against Terrorism. (ECON: Charlie Crouch)

18. (SBU) UPS and FedEx Disadvantaged by Postal Privatization  
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UPS and FedEx regional directors told the EMIN that they recently met with counterparts from other express mail carriers to coordinate on postal privatization issues.

The meetings in Tokyo with representatives from TNT (Express Mail Service from Netherlands) and DHL (Express Mail Service from Germany) focused on developing a lobbying strategy to counteract Japan Post's insistence that its Express Mail Service does not need to comply with the same regulatory requirements as other similar private services.

During the meeting FedEx and UPS representatives agreed to provide data on other comparable countries' reforms and interpretations of Japan's legal obligations. The regional CEOs from the four companies plan to come to Japan again in late October to lobby the relevant organizations on the issue.

One of the issues express mail services face is unequal customs procedures. If Japan EMS customers do not declare an item high value, they pay no taxes on it. Nor, reportedly, does anyone check the value of shipped items, which effectively creates a "no tax" avenue for shippers who do not scrupulously self-declare. It also creates a potential conduit for those seeking to ship illicit items, an issue of continued interest to the USG. (ECON: Charlie Crouch)

¶9. (SBU) Osaka Prefecture Angry Over Changes to GOJ Airport Management Policy

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The Osaka edition of Asahi Shimbun reported last week that MLIT is considering changes to the Japanese government's system of airport management, including a shift of the financial burden from the central to local governments.

The changes would be introduced in legislation next year. Needless to say, Osaka Prefecture is up in arms about the proposed revisions affecting its bottom line. Debt-ridden Osaka and local municipalities would become responsible for half of Itami Airport's operating expenses if the law is changed.

Osaka complained to polecon officer that it was not consulted by MLIT prior to publishing the proposal. Osaka-Kobe: Philip Cummings/Naomi Shibui)

¶10. (SBU) KIX Welcomes MLIT's Estimated Budget Request for Cargo Facility Construction; Faces Likely Opposition by MOF

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MLIT released its estimated budget request for fiscal 2008 this week and included 4.5 billion yen for the construction of cargo facilities to service KIX's new runway.

According to a KIAC official, several airlines are going to increase cargo flights at KIX, which will fill up the airport's current cargo facilities soon. The GOJ has imposed conditions on the airport for receiving public funds, but this year is the first time that demand for cargo service is clearly increasing, making it easier to request funds.

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However, MOF will be sure to oppose the request, a 75 percent increase from the 2007 budget. KIX will likely face a large bureaucratic hurdle in receiving the cargo construction funds it needs to improve the airport's profitability. Osaka-Kobe: Philip Cummings/Naomi Shibui)

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AROUND THE REGIONS

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¶11. (U) Citigroup to open "Okinawa Citigroup Center" in 2009

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Citigroup has purchased land close to Naha International Airport and plans to invest \$43 million to build a new management center in Okinawa. Construction is expected to take approximately 18 months and operations are set up begin between April and June, 2009.

This center will have same functions as, and serve as back up to, the Citigroup Tokyo Center, controlling financial affairs, accounting and compliance issues.

It will also function as a call center. The Okinawa Citigroup Center plans to hire 700 new employees, 490 of whom will full-

time workers. (Naha: Akinori Hayashi)

¶12. (SBU) Revitalization of Local Economy: Miyazaki Gov. Higashikokubaru Effect

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Miyazaki Prefecture, with its palm tree-lined roads, manicured beaches, sunny weather, and once called the "Honeymoon Mecca" and "Vacation Paradise" of Japan appears to be reviving again as one of the hottest tourist destinations in Japan, thanks to Gov. Hideo Higashikokubaru. The governor, who took office in January 2007, has seen his approval rating rise to over 90 percent, making him the most popular governor in Japan, according to a national newspaper poll in July.

By the end of August, over 100,000 tourists had visited the prefectural office and sales in the prefecture's specialty shop shot up 1,000 percent over the previous year. In addition, major hotels have seen a steady increase in the number of guests since April.

While Higashikokubaru may not be a panacea for putting the prefecture's economic house in order, post's recent trip to Miyazaki confirmed the positive effects of the Governor's leadership on the morale of prefectural officials and local business people, wiping out his initial "another-comedian-turned politician" image.

His initiative in public procurement reform has already born fruit. The ratio of "winning bid-to-estimated contract price" (a typical indicator of bid-rigging) declined from almost 97 percent to just over 80 percent between 2005 and 2007. (Fukuoka: Yuko Nagatomo/Jim Crow)

¶13. (SBU) Kansai Businesses Worried about Yen Appreciation's Impact on Economy

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With the yen appreciating since mid-August, many Kansai exporters are getting more concerned about the negative impact on their businesses. According to a Sankei Shimbun report this week, exporters of manufactured goods earned record profits from the yen's depreciation in the first half of 2007.

Osaka Chamber of Commerce and Industry (OCCI) officials told us that Kansai manufacturers may have built up a comfortable level of savings over the first six months, but that if the exchange rate stays at 115 yen to the dollar for more than several months, exporters are going to start hurting, especially Small and Medium Enterprises (SMEs). SMEs are already reeling from the rising prices of raw materials, especially metal and oil.

A sales manager of Matsushita Electric Industrial Co. also commented that profit margins from sales of flat TVs, the company's most competitive product, is already starting to shrink.

He is concerned that continued exchange rate pressure will lead

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the company to miss its sales targets in the next quarter. (Osaka-Kobe: Philip Cummings/Naomi Shibui)

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TRADE  
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¶14. (U) Trade: Australia-Japan Foundation Chairman Visits Hokkaido

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Peter Corish, chairman of the Australia-Japan Foundation, made a late August trip to Sapporo, Hokkaido, on a self-described mission to "activate bilateral trade." Corish, former president of Australia's National Farmers Federation and also current chair of the Cairns Group Farm Leaders, met with Hokkaido's Vice Governor Mitsuo Kondo on August 29. According to media reports,

the atmosphere of the meeting was tense as Hokkaido officials interpreted Corish's visit as an attempt to push for support on the proposed Economic Partnership Agreement (EPA) between Australia and Japan.

Hokkaido government officials, local farmers, and agricultural-related entities continue to express strong opposition to an EPA with Australia. Local analysts predict economic losses as large as \$11.6 billion if existing tariffs are lifted through an EPA on Hokkaido-produced wheat, dairy products, sugar beets and beef. (Sapporo: Ian Hillman/Yumi Baba)

¶15. (SBU) Japan and Chile Implement Economic Partnership Agreement

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PM Abe and Chilean President Michelle Bachelet signed a free trade agreement September 3, the first such trade deal Japan has signed with a South American country. According to press reports, the agreement is expected to make Chile Japan's largest South American trading partner. According to 2006 figures provided by MOFA, Chile runs a trade surplus with Japan -- with exports of \$6.59 billion and imports of \$1.15 billion.

Prior to her arrival in Tokyo, Chilean President Bachelet told Japanese reporters that the deal represented a "great opportunity" for Japanese business to gain ground in the Latin American market. Also, according to an August 29 Kyodo wire service story, the deal would "greatly benefit Chile in the agricultural area."

The Foreign Ministry has a number of items concerning the agreement on its website. To read the joint statement, click [here](#), and click [here](#) for more information.

In a joint press statement on September 3, the two leaders also signed an agreement to boost cooperation on climate change, clean energy, and anti-pollution measures. (ECON: Nicholas Hill)

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MONEY MATTERS

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¶16. (SBU) Unemployment Down, Starting Pay Up

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Seasonally adjusted unemployment dropped 0.1 percent in July to 3.6 percent, the lowest rate since February 1998, according to government statistics. The job openings-to-applicants ratio remained steady at 1.07.

A Japan Business Federation survey also found that average starting pay for graduates joining companies in April rose 0.66 percent, the largest year-on-year increase in a decade. As one analyst put it, current trends are likely to increase expectations a more general wage recovery. (ECON: Marc Dillard)

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POLITICAL MOVES

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¶17. (SBU) Postal Rebels Again Roiling the LDP

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In what is being read as a setback for pro-reformers in the

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Liberal Democratic Party (LDP), Chief Cabinet Secretary Yosano and Secretary General Taro Aso are laying the groundwork for former trade minister and "postal rebel" Takeo Hiranuma to rejoin the party, according to media reports. Unlike the other reinstated "postal rebels," Hiranuma would not be required to sign a pledge supporting postal privatization.

While no one is arguing that Hiranuma's reinstatement will change the path of postal reform itself, LDP members have groused to us

that the party leadership is out of touch with the electorate, which sees reinstatement as a return to old ways of the LDP and a rejection of the voters' wishes as expressed in the 2005 Lower House election. (ECON: Marc Dillard)

¶18. (SBU) GOJ Candidate for WTO Appellate Body  
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Japan announced on August 30 that Shotaro Oshima will be its candidate to the WTO Appellate Body in Geneva. A MOFA official told us that, by their count, some eight people are vying for four open positions on the dispute body.

Oshima is currently Japan's ambassador to South Korea. The same MOFA official told us that Oshima will likely be interviewed by WTO Director General Pascal Lamy sometime in the end of September or early October. A decision on the candidacy should come within three months of the August 30 announcement.

For Oshima's biography, please see attachment. (ECON: Nicholas Hill)

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SPORTS  
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¶19. (U) A First in Sumo History - Yokozuna Suspended for Behavior Unbecoming  
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For the first time in the sport's ancient history, a yokozuna has been suspended from two upcoming sumo tournaments for behavior unbecoming a grand champion. The Japan Sumo Association (JSA) suspended champion Asashoryu on August 1 after he declined to compete in the summer bashyo citing injury but was later caught participating in a charity soccer tournament in his home-country of Mongolia. The JSA also cut the salaries of Asashoryu and Takasago, his stable master, by 30 percent for the next four months.

Subsequent to his suspension, Asashoryu (given name Dolgorsuren Dagvadorj) reportedly suffers from insomnia and a poor appetite. The JSA-ordered psychiatric evaluation confirmed this diagnosis and recommended the wrestler be allowed to return home to his native Mongolia to recuperate. The JSA convened a special hearing during which they acquiesced to this request stipulating, however, that Asashoryu would be confined to his home except to go out for to meet with his psychiatrist or to attend practice.

The suspension has now become an international incident with Mongolian President Nambaryn Enkhbayar himself criticizing the wrestler, stating Asashoryu should study Japanese tradition and culture more diligently as befitting a Yokozuna's stature. The President further opined that the truly great sumo wrestlers combine physical power with mental power and stated he hoped Asashoryu would strive to become that type of athlete.

To add salt to the wound, the Tokyo Regional Taxation Bureau announced August 28 that the beleaguered Yokozuna failed to report approximately 100 million yen in income over three years and would be slapped with 30 million yen in penalties and back taxes. Conspiracy or merely bad luck?

Rumors now abound that Asashoryu will retire from the sport rather than return to face his critics in Japan. Stay tuned for further reporting on the saga. (ECON: Sally Behrhorst)

¶20. (U) This SENSITIVE BUT UNCLASSIFIED e-newsletter from U.S. Embassy Tokyo's Economic Section, with contributions from the consulates, is for internal USG use only. Please do not forward in whole or in part outside of the government. The Scope is edited this week by Charlie Crouch (CrouchCA@state.gov) and Joy Progar (ProgarJ@state.gov)

¶21. (U) Please visit the Tokyo Econ Intranet webpage for back issues of the Scope. Apologies, this option is only available to State users. Please contact Joy Progar if you are from a different agency and are interested in a back issue.

DONOVAN